

To Our Shareholders and Other Investors

In an increasingly challenging business environment, we believe that now is the time for all of us to transform Circle K Sunkus with fresh ideas. We will actively embrace challenges that only Circle K Sunkus can accomplish as we ensure that franchisees and Head Office work as one to expand each other's earnings.



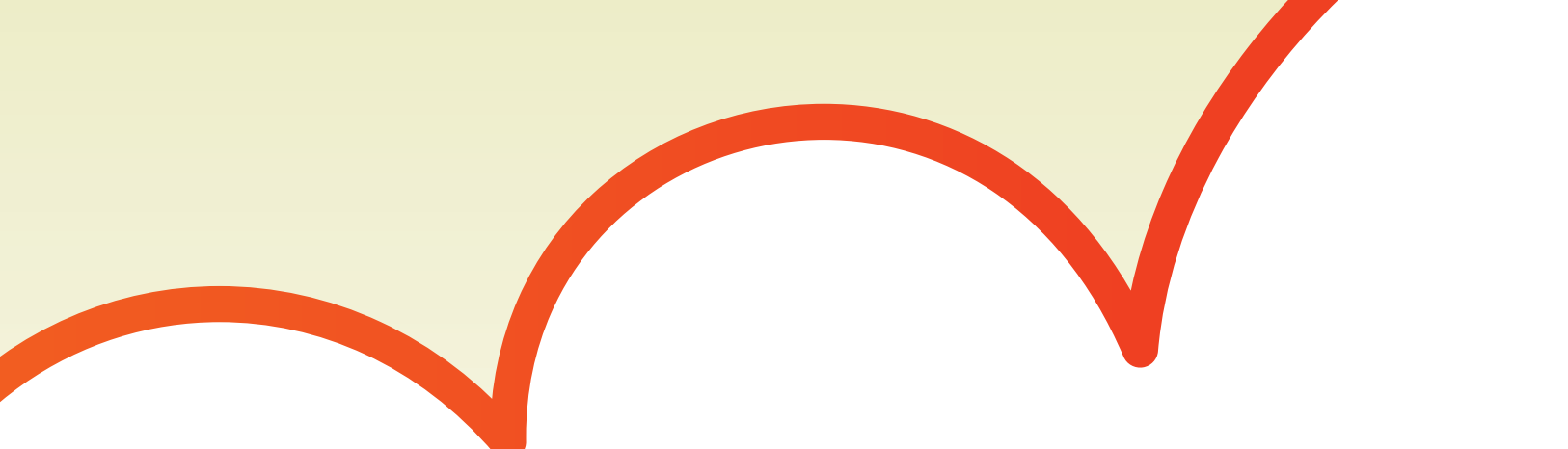
Motohiko Nakamura,
President

Review of the Fiscal Year Ended February 28, 2010

Circle K Sunkus' management policy for the fiscal year ended February 28, 2010 was "Challenge and Action." Under the mantra of "Let Go and Change," we tackled many different challenges. With the introduction of *KARUWAZA STATION* in-store multimedia terminals in August 2009, we successfully completed the large-scale system investments implemented since the fiscal year ended February 28, 2008 and have further expanded our lineup of services. We also produced positive results on other fronts. For example, we opened our first stores in Fukuoka Prefecture; launched franchisee support measures such as the "Franchised Store Staffing System"; and implemented the "listening" initiative to directly convey the views and proposals of franchisees to

management. We also formed a business tie-up with a partner in a different business sector, in our first step to develop entirely new convenience stores. Progress was also made with the inefficiency reduction measures I have promoted since my appointment as president. Here, the entire Company worked as one to rigorously enforce inefficiency reduction measures, resulting in substantial cost reductions.

Despite these positive results, Circle K Sunkus recorded weak sales overall, mainly due to generally lackluster consumer spending, preferences for low prices, and intensifying competition with different business sectors. Weather-related factors, such as an extended rainy season and a mild summer, were also responsible. From July 2009, tobacco sales decreased due to the end of a boost from the introduction of so-called "taspo card systems"



(age-verifying IC card systems installed in cigarette vending machines). Consequently, existing store sales declined 5.6% year on year on a non-consolidated basis. Overall, selling, general and administrative (SG&A) expenses were reduced far below plan, despite substantially higher costs incurred in relation to new information systems and service equipment rolled out until the previous fiscal year. However, these cost reductions were not enough to make up for decreased operating gross profit in line with weak net sales, resulting in a year-on-year decline in earnings.

Management Policy for the Fiscal Year Ending February 28, 2011: “Everyone Should Think and Act Together”

The convenience store industry as a whole continues to face difficult sales conditions. Industry-wide, existing store sales have been in decline since June 2009, mainly reflecting weak consumer spending and the impact of deflation. The fiscal year ending February 28, 2011 will be a crucial year for ensuring that Circle K Sunkus remains competitive. However, rather than being discouraged by our current conditions, I believe that these difficult and challenging times provide an opportunity for all of us to transform Circle K Sunkus with fresh ideas.

Circle K Sunkus’ management policy for the fiscal year ending February 28, 2011 is that everyone should think and act together. I believe that it is important for all members of Circle K Sunkus to align their strengths and collectively think about what must be done to stage a comeback—and take action. The keywords of our

management policy are “visualize” and “enjoy.” We will make the priorities and issues faced by Circle K Sunkus clearly “visible” in terms of concrete figures as we collectively think about challenges and resolve issues as rapidly as possible. “Enjoy” expresses the need for us to return to basics, and for all of us to “enjoy” the process of working together to develop endearing retailing spaces, stores and products that customers truly “enjoy.”

Building Stronger Partnerships With Franchisees

The fiscal year ended February 28, 2010 was a year that put the spotlight on Head Office-franchisee issues throughout the convenience store industry. As you know, the convenience store business is a franchise business. This business cannot thrive unless we remember that the success of Head Office ultimately depends on franchisees. In the past, we have implemented a broad range of franchisee support measures in an effort to build good relationships with our franchisees. Nonetheless, in this difficult business environment, it is our franchisees who are in a more difficult position than Head Office. Therefore, in the fiscal year ending February 28, 2011, we will step up franchisee support measures, including measures to boost sales and support sales-promotion initiatives.

On the other hand, in order to actively support our franchisees, we will tackle the challenge of achieving further cost reductions during the current fiscal year. In the fiscal year ending February 28, 2011, we will expand our targeted cost reduction items around “7 Urgent Cost

Reductions.” Efforts will be focused on reviewing operations and increasing their transparency. By leaving no stone unturned in the process of reducing inefficiencies, we will work to achieve our annual cost reduction target of ¥3.3 billion for the fiscal year.

We are once again forecasting a drop in earnings in the fiscal year ending February 28, 2011, the final year of our Three-Year Plan. This is because despite the large cost reductions, ¥1.2 billion will be allocated to strengthening franchisee support measures. Franchisees and Head Office will work as one to expand one another’s earnings, in order to return Circle K Sunkus to earnings growth in the fiscal year ending February 28, 2012.

Rising to the Challenge of Developing Entirely New Types of Convenience Stores

On December 21, 2009, Circle K Sunkus formed a business tie-up with cocokara fine HOLDINGS Inc., which manages the SEGAMI and SEIJO drug store chains, among other operations. I believe that as the convenience store industry

approaches a mature phase, it will be essential to develop entirely new types of convenience stores. This will require tie-ups with different business sectors, not tie-ups within our industry. The business tie-up with cocokara fine HOLDINGS represents the first step in this process.

On behalf of Circle K Sunkus, I personally took the initiative to approach cocokara fine HOLDINGS with a proposal to form this business tie-up. In Japan, where the aging of Japan’s society and its declining birthrate is advancing at an unprecedented pace, nursing care and nursing services will take on greater importance than ever before. I intend to make Circle K Sunkus an elderly- and senior citizen-friendly chain of convenience stores in the future. In this regard, cocokara fine HOLDINGS is strong in nursing care and nursing services, and is aligned with Circle K Sunkus’ targeted direction. Another strength is that as a company formed through a merger, cocokara fine HOLDINGS shares many experiences in common with Circle K Sunkus. Furthermore, one of my goals is to “creatively destroy” the traditional convenience-store model to reinvent convenience

Development of new store format

- Develop the new *Healthcare Conbini* format (Health-care Convenience Store; provisional name)
- ✓ New trial store scheduled to open in the second half of FY2011/2

New style of collaboration

- *Mini Conbini* (Mini-convenience stores) within dispensing pharmacies
- *Mini Drug Stores* within convenience stores, etc.



Business tie-up formed in December 2009

Mutual merchandising support

- Roll out Health & Beauty Care (H&BC) products at convenience stores
- Roll out fast food and perishable food at drug stores

Personnel development and exchanges

- Establish the “Registered Vender Qualification Exam Support Package”

stores. Given that President Tsukamoto of cocokara fine HOLDINGS shares the same view, I feel that we have formed a business tie-up with the ideal partner.

In the second half of the fiscal year ending February 28, 2011, we plan to actively open stores based on a new format fusing convenience stores and drug stores. The Business Innovation Development Division, which was established in the fiscal year ending February 28, 2011, is leading this effort with the aim of launching the full-scale operation of this new format from the fiscal year ending February 28, 2013. Additionally, retailing spaces for general merchandise, a product category suffering weak sales, will be revitalized by making use of cocokara fine HOLDINGS' merchandise and expertise. Our goal is for these efforts to help lift overall sales at existing stores.

In other areas, Circle K Sunkus is pursuing new initiatives like the launch of car sharing services in partnership with Japan Car Sharing Inc. and the installation of charging stations for electric vehicles. We will boldly open up the possibilities for convenience stores to function as social infrastructure in new ways.

Circle K Sunkus in a New Era

In 2010, Circle K Sunkus celebrates the 30th anniversary of opening its first Circle K and Sunkus stores. In the future, we will continue to do what only we can accomplish with the aim of building an entirely new Circle K Sunkus.

There is no silver bullet to enhancing sales. If one were to exist, it would be our ability to transform ourselves. We are determined to work as one to rise above these challenging times as we reinvent Circle K Sunkus for a new era by constantly adopting fresh ideas. Your continued support and understanding will be vital to reaching our goals.

July 2010

Motohiko Nakamura

Motohiko Nakamura, President



A joint press conference on the business tie-up between Circle K Sunkus and cocokara fine HOLDINGS was held on December 21, 2009. (Center-left, Circle K Sunkus President Nakamura; Center-right, cocokara fine HOLDINGS President Tsukamoto)